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RR RUEHWEB

DE RUEHMN #0400/01 1971207
ZNR UUUUU ZZH
R 151207Z JUL 08
FM AMEMBASSY MONTEVIDEO
TO RUEHC/SECSTATE WASHDC 8330
INFO RUCNMER/MERCOSUR COLLECTIVE
RUEHCV/AMEMBASSY CARACAS 0554
RHEHNSC/NSC WASHDC

UNCLAS MONTEVIDEO 000400

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: PGOV PREL ECON ARG VZ UY
SUBJECT: MAJOR PDVSA PROJECTS FALL APART, BUT VENEZUELA COMMERCIALLY ACTIVE IN URUGUAY

SUMMARY

¶1. (SBU) German Riet, Vice President of Uruguay's state-owned oil company ANCAP, updated emboffs on the status of ANCAP4s business with Venezuelan oil company PDVSA on July 8. His comments, on the margins of a meeting with U/S Dobriansky to discuss bio fuels, emphasized that while some high profile initiatives between PDVSA and ANCAP have failed, ANCAP remains pleased with the overall commercial relationship. Riet admitted that PDVSA may not be completely satisfied on its end. END SUMMARY.

THE BRIGHT SIDE OF BUSINESS

¶2. (SBU) Riet downplayed reports in a recent article by well-regarded weekly newspaper Busqueda indicating that PDVSA was losing interest in its business with ANCAP, and stated that the relationship remains active. He was particularly enthusiastic about the recent renewal of a 2005 agreement that enables ANCAP to pay for Venezuelan oil on preferential terms. Under the agreement, ANCAP pays 75% of the invoice within 90 days and the remaining 25% with a 2% loan over 17 years. The agreement also gives the GOU the option to pay the first 75% with in-kind goods or services. NOTE: To facilitate the in-kind transactions, some Uruguayan payments are deposited into a multi-million dollar holding fund. Some opposition politicians have raised concerns about who controls the fund and how it is used. END NOTE. Riet highlighted the outcome of another deal struck in 2006, in which ANCAP sold 46% of its gas station chain in Argentina (Sol Petroleo) to PDVSA. He said that Sol Petroleo4s balance sheet has shifted from a $20-$50 million annual loss to a profit. Riet did admit that while ANCAP is happy with the association, PDVSA has "lost plenty of money."

HOWEVER, IMPORTANT PLANS FELL APART

¶3. (SBU) Despite his optimism, Riet told emboffs that that the long-discussed plan for PDVSA to invest between USD 600 million and 1.0 billion to revamp ANCAP4s refinery was falling apart. He explained that the initial agreement (under which PDVSA would finance the renovation of the refinery and become a partner in gasoline sales) turned sour when PDVSA didn't want ANCAP to call a public tender for the project. Riet also said the plan to supply Venezuela's housing development with Uruguayan cement has also fallen apart in the face of high transportation costs. He said that the plan seemed unviable right from the beginning and opined that it was merely a "signal of voluntarism" between Chavez and Vazquez. He noted that three weeks ago, Chavez nationalized three foreign-owned cement firms and speculated that Venezuela may supply its cement needs with their production.

URUGUAY-VENEZUELA TRADE IS SURGING

¶4. (SBU) While a lot of expectations were generated in 2005 around the possibility of paying for part of the oil bill in-kind, only three successful deals have been struck, one of which caused some political turmoil. Uruguayan businesspeople and some politicians, even from the ruling Frente Amplio, are disappointed with and

critical of the difficulties of doing business with Venezuela. While the in-kind payment system may not be working as smoothly as some had hoped, exports to Venezuela have boomed since the current administration took office in 2005. In fact, in the first half of 2008 Venezuela became Uruguay's eighth largest export market, outpacing the US which fell to the tenth place, through a combination of rising sales to Venezuela and plunging exports to the U.S. (especially for refined gasoline). Table 1 shows Uruguayan imports from Venezuela, Uruguayan exports to Venezuela and the US, and an indicator of export diversification to Venezuela.

Table 1. Uruguay's trade with Venezuela and exports to US (data as of first half of each year in millions of USD and number of items sold to Venezuela worth over one million)

	Imports from VZ	Exports to VZ	N. of Items over $1 million to VZ	Exports to US
2004	0.2	9	1	265
2005	0.5	9	1	370
2006	185	29	5	285
2007	202	43	7	289
2008	162	97	11	89

COMMENT: GOV REMAINS ACTIVE IN URUGUAY

¶5. (SBU) COMMENT: The GOU4s relationship with the GOV and PDVSA is one of the issues the Nationalist opposition party often uses to criticize the government, making a direct association between ANCAP and PDVSA a hard sale. Such criticism resonates with a significant number of voters. However, despite the apparent failure of the PDSVA refinery and the cement deals the GOV remains active in Uruguay in a variety of sectors. It has invested in the banking sector, its oil company has partnered with ANCAP in Sol Petroleo and with another firm to produce sugar and ethanol, PDVSA offered ANCAP the joint exploration of an oil well in Venezuela, financed the reopening of three cooperatives, and signed about 80 agreements.

BAXTER